

## Message Text

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61

ACTION AF-08

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 EB-07 CIEP-02 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-01 XMB-04 OPIC-06 LAB-04 SIL-01 IO-13

/114 W

----- 100420

R 130720Z MAY 76

FM AMEMBASSY CAPE TOWN

TO SECSTATE WASHDC 5193

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

AMEMBASSY PRETORIA

UNCLAS CAPE TOWN 0574

E.O.11652:N/A

TAGS: EGEN,PINT,SF

SUB: PRP SPOKESMAN LINKS ECONOMIC RECOVERY,DOMESTIC POLITICAL  
PROBLEMS

SUMMARY. IN A SPEECH ON MAY 11 TO THE UCT GRADUATE SCHOOL OF  
BUSINESS, PROGRESSIVE REFORM PARTY(PRP) FINANCE SPOKESMAN HARRY  
SCHWARZ SAID ECONOMIC RECOVERY DEPENDED ON LOCAL BUSINESS  
CONFIDENCE AND OVERSEAS POLITICAL CONFIDENCE. PROGRESS ON DOMESTIC  
PROBLEMS AND ON SOUTH WEST AFRICA AND RHODESIA WERE REQUIRED  
TO PROVIDE THE LATTER, CORRECT ECONOMIC POLICIES TO PROVIDE  
THE FORMER. HOWEVER THERE WERE  
SOME NEGATIVE FACTORS,INCLUDING LIKELIHOOD THAT DEFENCE EXPENDITURE  
WAS LIKELY TO RISE FURTHER,GOLD PRICE UNLIKELY TO RISE SIGNIFICANTLY  
AND THE DOLLAR RAND EXCHANGE RATE LIKELY TO BE A PROBLEM. END  
SUMMARY.

1. PRP SPOKESMAN HARRY SCHWARZ SAID THAT RECOVERY OF SOUTH AFRICA'S

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ECONOMY REQUIRED POLITICAL CONFIDENCE ABROAD AND BUSINESS

CONFIDENCE AT HOME. ACHIEVEMENT OF FORMER REQUIRED DOMESTIC STABILITY, DEMONSTRATION THAT INTERNAL POLITICAL PROBLEMS (RACE RELATIONS) BEING TACKLED REALISTICALLY AND EVIDENCE THAT SETTLEMENTS IN SWA AND RHODESIA NOT ONLY POSSIBLE BUT PROBABLE.

2. LOCAL BUSINESS CONFIDENCE REQUIRED EVIDENCE THAT STRUCTURAL PROBLEMS OF ECONOMY BEING DEALT WITH EFFECTIVELY, A REASSESSMENT OF "TREMENDOUS" FUTURE CAPITAL PROGRAMS AND REASSESSMENT OF TAX POLICIES THAT HAMPER INCENTIVE. HE SAID CONFIDENCE REQUIRED NOT JUST TALK BUT ACTION. A SYMBOLIC ACT BY THE GOVERNMENT WITH RESPECT TO JOB RESERVATION (WHEREBY NON-WHITES ARE RESTRICTED FROM CERTAIN JOBS) WOULD HAVE A REAL PSYCHOLOGICAL EFFECT BOTH DOMESTICALLY AND ABROAD, HE ADDED.

3. SCHWARZ SAID COUNTRY COULD NOT AFFORD ANOTHER BUDGET LIKE THIS YEAR (WHICH WAS CONSIDERED FAIRLY SEVERE IN TERMS OF INCREASED TAXES AND MINIMAL SOCIAL EXPENDITURES.) HOWEVER, HE SAID PICTURE WAS "SOMEWHAT GLOOM" BECAUSE DEFENSE SPENDING LIKELY TO RISE, GOLD PRICE UNLIKELY TO RISE, SAG EXPENDITURES LIKELY TO EXCEED 10/5 PERCENT LIMIT SET BY FINANCE MINISTER, LONG-TERM OVERSEAS BORROWING LOOKED NO EASIER, RECOVERY OF ECONOMICS OF SOME TRADING PARTNERS NOT RECOVERING AT EXPECTED RATE, NON-EXPORT ORIENTED INDUSTRIES SHOWING NO GREAT CONFIDENCE AND, GIVEN DIFFERING RATES OF INFLATION, EXCHANGE RATES PARTICULARLY BETWEEN RAND AND DOLLAR, LIKELY TO BE A PROBLEM.

COMMENT: WHILE NOT PROVIDING ANY READYMADE SOLUTIONS, SCHWARZ SPEECH DOES HIGHLIGHT CRUCIAL RELATIONSHIP BETWEEN INVESTOR CONFIDENCE AND ABILITY TO RAISE CAPITAL TO OFFSET DEFICIT ON TRADE ACCOUNT AND FINANCE LONG-TERM CAPITAL PROJECTS. ONLY MAJOR PROBLEM NOT RAISED, AT LEAST IN PRESS REPORTS OF HIS SPEECH, WAS LIKELIHOOD OF SAG TAKING ANY OF THE CONFIDENCE-BUILDING STEPS WHICH HE PRESCRIBED..

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